



STATE OF ARIZONA

JANICE K. BREWER
GOVERNOR

EXECUTIVE OFFICE

June 30, 2010

The Honorable John McCain
United States Senate
241 Russell Senate Office Building
Washington, DC 20510-0303

Dear Senator McCain:

I have, on numerous occasions, written you and our President regarding federal healthcare reform efforts, and the pressures that these unfunded mandates and maintenance of effort requirements have placed on Arizona's budget. I have repeatedly highlighted the dismal economic and fiscal situations facing our great State. These challenges include the fact that Arizona has lost the largest percentage of jobs in the United States and that this downturn has resulted in a loss of over 30 percent of state revenues. During the past year, we faced – and resolved -- one of the largest budget deficits of any state.

It has been a long, hard struggle to return our state to a path of fiscal stability. We have made some very painful reductions in state spending across all areas of government – the largest reductions in the history of Arizona state government. We have entered into debt arrangements that have brought us national attention. And I am pleased that our voters understood the severity of our circumstances when, on May 18, 2010, they overwhelmingly passed a temporary one-cent increase in the state sales tax to ensure sufficient support for critical core state services like education and public safety until our state's revenue base can recover.

Unfortunately, the solutions available to us to balance our budget have been repeatedly curtailed by the spending mandates imposed by the federal government, particularly those related to Medicaid. As you know, Arizona's Medicaid program covers all residents up to 100 percent of the federal poverty level, including childless adults and other populations that most states currently do not cover. One component of our efforts to balance the budget included a potential reduction in these previously federally-optional populations. However, despite my numerous requests for consideration from Congress, the federal health care reform legislation included a maintenance of effort (MOE) requirement that effectively prohibits states from reducing their Medicaid eligibility. The passage of this legislation has directly resulted in an almost \$400 million hole in Arizona's FY 2011 budget, and will cost almost \$1 billion in FY 2012.

Despite its alluring title, the "Affordable Care Act" (ACA) has essentially locked states into their existing Medicaid program eligibility and spending obligations. That means that if states are to realize any significant savings within their Medicaid programs, they must slash provider rates,

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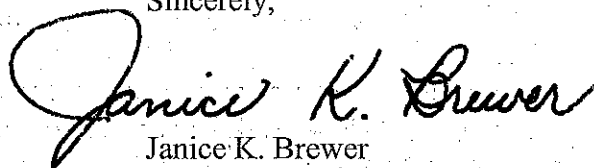
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eliminate optional benefits, or raise revenues. Arizona has already done all of the above. We cannot continue to fund our Medicaid program on the backs of the very health care providers upon whom we rely to care for not only our Medicaid members but all Arizonans. And we cannot ask Arizonans to foot the bill for yet more unfunded Congressional mandates. We are not the federal government's ATM.

I have been following with great interest discussions surrounding an extension of the increased federal medical assistance percentage (FMAP) that was included in the American Recovery and Reinvestment Act (ARRA) and scheduled to expire on December 31, 2010. Although I am troubled by rampant federal spending and our increasing federal deficit, and I share concerns about undertaking expenditures without an adequate source of funds, I believed its extension was an essential tool to assist states in addressing these unfunded MOE requirements. However, it has become clear that the Congress does not have the will to assist states in addressing the very problem that it created. The failure of the Tax Extenders bill (H.R. 4213) proves the point of my previous correspondence – that Arizona, and indeed the nation, cannot afford the Medicaid program it has, let alone an expansion. Consequently, I ask you to strongly consider what seems to me to be the only real alternative – drop, or at least relax, the MOE requirements and the massive unfunded federal mandate imposed on states which are already facing significant and, in some cases, unprecedented financial hardship.

We have worked hard to give Arizona the economic comeback it deserves. Please, let's not give Americans another empty promise and prolong the fiscal uncertainty for states. Instead, I ask you to make the tough and necessary decisions to give Arizona and the rest of the nation real solutions they can afford.

Sincerely,

A handwritten signature in black ink that reads "Janice K. Brewer". The signature is fluid and cursive, with the first name "Janice" being more prominent and the last name "Brewer" following in a similar style.

Janice K. Brewer
Governor

cc: Arizona Congressional Delegation